

Joint Committee on Taxation
November 7, 1995
JCX-50R-95

TEMPORARY INCREASE IN STATUTORY LIMIT ON THE PUBLIC DEBT

**Scheduled for Markup
by the
Committee on Ways and Means
on November 7, 1995**

Present Law and Background

The statutory limit on the public debt currently is \$4.9 trillion. It was set at this level in P.L. 103-66, enacted into law on August 10, 1993. It is projected that the current debt limit will be reached before the end of November 1995.

H.R. 2491 (the 1995 budget reconciliation bill), as passed by the House and the Senate, would increase the permanent public debt limit to \$5.5 trillion.

The various authorizing statutes of the major trust funds of the Federal Government and certain other Federal accounts require that any program income not needed to meet current expenditures be invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. As of September 30, 1995, \$1,320 billion in Federal securities were held by Federal trust funds or other special accounts and comprised more than one quarter of all outstanding Federal debt. Almost half were held by the Social Security and Medicare trust funds--\$483 billion by Social Security and \$143 billion by Medicare. Most of the remainder were held by the Federal Civil Service and Military Retirement Funds--\$374 billion by the Federal Civil Service Retirement Fund and \$113 billion by the Military Retirement Fund. Together, the trust funds of these four programs accounted for 83 percent of the debt held in Federal trust funds and other special accounts. The vast majority of these securities are "special issue" non-marketable obligations of the United States. Virtually the entire amount of securities held by Federal trust funds and special accounts is considered Federal debt subject to the debt limit.

Subsections (j), (k), and (l) of section 8348 of Title 5 of the U.S. Code, and subsections (g) and (h) of section 8438 specify procedures for the management of the Federal Civil Service Retirement Fund during periods of debt limitation.

Description of Proposal

The proposal would increase the statutory limit on the public debt to \$4.95 trillion for debt outstanding prior to December 13, 1995. After December 12, 1995, the debt limit would be \$4.8 trillion, beneath the present-law limit of \$4.9 trillion.

The proposal would preclude the Secretary of the Treasury and other officials from refraining to properly credit trust funds and special accounts with securities for the purposes of avoiding reaching, or otherwise being constrained from borrowing, by limitations on the public debt. Further, during any period in which the Secretary and other officials are unable to issue new debt obligations due to a limitation on the public debt, they may not sell or redeem securities, obligations, or other assets of these trust funds and special accounts, except when necessary to provide for the payment of benefits and administrative expenses of the various cash benefit programs.

The proposal also requires the Secretary of the Treasury to report to the Congress and the General Accounting Office (GAO) three days before he makes a sale or redemption of securities from these funds or accounts during a period of debt limitation, and requires the GAO to monitor compliance with the measures set forth in this bill and report its findings and recommendations to each House of Congress.

The proposal would repeal Subsections (j), (k), and (l) of section 8348 of Title 5 of the U.S. Code, and subsections (g) and (h) of section 8438.

Effective Date

The provision would be effective on the date of enactment.